LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS

200 W. Washington, Suite 301
Indianapolis, IN 46204
(317) 233-0696
http://www.in.gov/legislative

FISCAL IMPACT STATEMENT

LS 6364 **NOTE PREPARED:** Feb 10, 2013
BILL NUMBER: HB 1462 **BILL AMENDED:** Feb 7, 2013

SUBJECT: Economic Development.

FIRST AUTHOR: Rep. Davisson **BILL STATUS:** CR Adopted - 1st House
FIRST SPONSOR:

FUNDS AFFECTED: X GENERAL **IMPACT:** State & Local
X DEDICATED
FEDERAL

Summary of Legislation: (Amended) This bill permits the Office of Community and Rural Affairs (OCRA) to designate a rural county as a Rural Entrepreneurship Area Development Incentives Area (READIA). It provides for the distribution of Adjusted Gross Income (AGI) Taxes annually paid by employees working in a READIA for a new business and by the new business itself to the county for the development of new business opportunities in the county, including transfers to local or regional venture capital funds. This bill limits the amount that may be distributed in any year to $500,000.

This bill permits a Venture Capital Investment (VCI) Tax Credit that has been certified by the Indiana Economic Development Corporation (IEDC) to be applied against tax liability when the qualified investment capital is provided regardless of whether the total amount of tax credits applied by all taxpayers in a particular calendar year exceeds $12.5 M.

Effective Date: (Amended) Upon passage; January 1, 2013 (retroactive).

Explanation of State Expenditures: (Revised) *Summary - Department of State Revenue, OCRA, State Board of Accounts, IEDC, Treasurer of State, and State Budget Agency:* The bill's requirements are within the agencies' routine administrative functions and should be able to be implemented with no additional appropriations, assuming near customary agency staffing and resource levels.

Additional Information - Department of State Revenue (DOR): Before the first business day in October of each year, the DOR shall compute the amount of money to be deposited in each READIA fund.

Office of Community and Rural Affairs (OCRA): The OCRA will have to develop applications and an approval process for perspective READIAs. The OCRA should be able to implement this program with their current level of resources.

State Board of Accounts: The agency shall audit each READIA fund every 2 years to determine if the state transferred the appropriate amount of revenue to the fund, and whether the money in the fund was used in accordance with the county's agreement with the OCRA.

Treasurer of State: The State Treasurer's office shall establish a state READIA fund for each county with a READIA area. Money in the fund does not revert to the state General Fund at the end of the fiscal year.

(Revised) *Indiana Economic Development Corporation (IEDC):* The changes to the VCI Tax Credit within the bill will alleviate some of the administrative complexities present in the current statute.

State Budget Agency (SBA): The SBA has final approval authority over a county's selection to be a READIA area. The SBA shall send a copy of the approval to the DOR.

Explanation of State Revenues: (Revised) *Rural Entrepreneurship Area Development Incentives Area* - This bill allows counties with a population less than 50,000 to apply to the OCRA for an area to be designated as a READIA to serve as an incubator for start-up businesses. This bill will decrease revenue deposited in the General Fund because the Individual and Corporate Adjusted Gross Income (AGI) Tax paid by employees of new business and paid by new businesses (minus any Economic Development for a Growing Economy Tax Credits awarded) within the READIA will be paid into a fund established for the READIA. The state revenue loss is capped at $500,000 per county per year regardless of the number of READIAs in a county. The actual reduction in revenue depends on a number of READIA*s* established and the economic activity within each area.

According to 2010 population data from the Bureau of Economic Analysis, there are 64 counties in Indiana that would qualify for a READIA. The maximum state revenue loss from this program would be $32 M a year if all 64 counties created a READIA and the state revenue capture reached its threshold.

(Revised) *Venture Capital Investment Tax Credit*: Under current law, the total amount of VCI credits allowed may not exceed $12.5 M in a particular calendar year. This bill permits the total VCI credits claimed by taxpayers to exceed $12.5 M per year as long as the amount of credits approved by the IEDC does not exceed $12.5 M per calendar year. This change will likely have no fiscal impact because historically both the credits certified by the IEDC and the total credits claimed by taxpayers have been well below the $12.5 M annual cap.

Venture Capital Investment Tax Credit Authorization and Use Profile ($ in millions)				
Calendar Year	**Proposed Capital Investment**	**VCI Credits Awarded by IEDC**	**VCI Credits Certified by IEDC**	**VCI Credits Claimed on Tax Returns**
2008	$112.60	$7.80	$6.67	$3.39
2009	71.52	4.98	3.86	2.56
2010	77.47	6.77	4.51	3.38
2011	83.20	2.64	4.17	1.80*
* The 2011 credit amounts are not full-year totals because of filing extensions and suspensions of returns for audit.				

This bill gives the IEDC flexibility in managing the VCI program and resolves a potential anomaly between the amount of credits certified and the amount claimed in a particular year. Taxpayers have two years after the date of certification to make the qualified investment. As a result, even though the amount of credits certified could be well within the statutory limit, it is possible, though unlikely, that in any particular year the amount of credits claimed could exceed the current statutory limits, thereby causing the IEDC to delay awarding new credits to some companies. This bill resolves this anomaly.

Explanation of Local Expenditures: (Revised) *READIA*: If an eligible county decides to apply to the OCRA to establish a READIA, they are required to submit an economic development plan to the OCRA. The county also has to approve the terms of loans granted to new businesses. The county may have to employ an expert consultant to assist in the development of these plans and to develop the criteria for approving loans. The county would have to apply sufficient funds and resources to accomplish this initiative.

Explanation of Local Revenues: *Summary* - Each year, the amount of revenue deposited into a county READIA Fund would be the Individual and Corporate AGI Tax revenue collected from employees and businesses (minus any Economic Development for a Growing Economy Tax Credits awarded) in the READIA area, up to a maximum of $500,000 per year. The actual revenue collected by a READIA largely depends on the success of the businesses and wages paid to employees within its boundaries.

(Revised) *Additional Information:* Under this bill, counties with a population less than 50,000 may apply to the OCRA to be selected as a READIA area. As part of the approval process the county has to submit a written plan for supporting entrepreneurship and the establishment of new businesses in the area. If selected by the OCRA and approved by the State Budget Agency, this designation is effective until the OCRA rescinds the designation, the county fiscal body specifies an earlier date, or January 1, 2024.

Each month the county READIA fund will receive a distribution from the state. Money deposited in the fund may only be used for a combination of the following:

- Transfer money to a revolving fund.
- Transfer money to a regional or local venture capital fund established under current law.
- Business incubator and accelerator development and operation.
- Small business support services.
- Assisting in the development of high speed Internet service within the county.

The county fiscal body would have to approve the terms of the loans. Interest payments on loans made from the revolving fund revert back to the fund. A county may not issue bonds using the fund as collateral. Two or more counties may enter into a written agreement to develop new businesses.
Once an area is terminated the remaining funds revert to the state General Fund.

State Agencies Affected: Department of State Revenue; Office of Rural and Community Affairs; State Treasurer; Indiana Economic Development Corporation; State Board of Accounts; State Budget Agency.

Local Agencies Affected: Counties with less than 50,000 in population.

Information Sources: LSA Income Tax Database; Global Insights Indiana County Level Forecast, June 2012; LSA, *Indiana Income Tax Credit Study: Venture Capital Investment Credit*, September 2012; Bureau of Economic Analysis, Regional Economic Profile: Indiana; IEDC, Venture Capital Investment Credit Authorizations, 2012; Eric Shields, IEDC, 317-234-3997.

Fiscal Analyst: Heath Holloway, 317-232-9867.